



WEEKLY ECONOMIC DIGEST

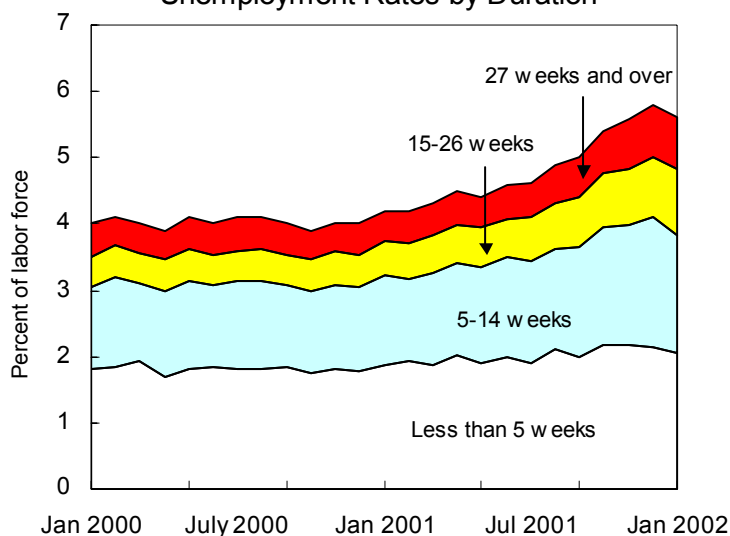


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – VICE CHAIRMAN

February 5, 2002

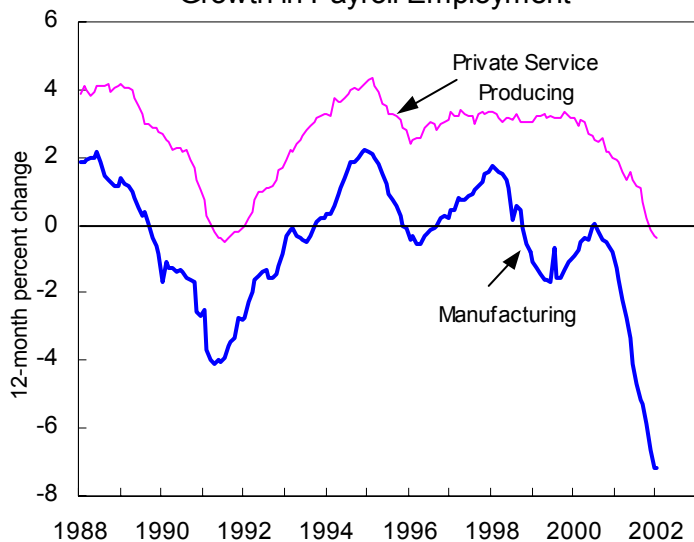
The Economy is Not Yet Out of the Woods

Unemployment Rates by Duration



Source: Bureau of Labor Statistics, U.S. Department of Labor.

Growth in Payroll Employment



Source: Bureau of Labor Statistics, U.S. Department of Labor.

- **Overall growth exceeded expectations, but the economy remained weak in the fourth quarter.** After adjustment for inflation, gross domestic product (GDP) grew at an annual rate of 0.2 percent during the final quarter of 2001, according to the Commerce Department's preliminary estimates. Analysts had expected GDP to decline, but sharp increases in the demand for motor vehicles and government purchases (particularly construction spending by state and local governments) partially offset weakness in business investment, exports, and housing. By itself, however, the fourth-quarter growth of real GDP does not signal the end of the recession. Even with the unexpected growth, GDP was not significantly different from its level at the end of 2000.
- **The unemployment rate fell in January as labor force shrank.** The civilian unemployment rate fell 0.2 percentage points to 5.6 percent last month. However, that decline stemmed not from an increase in employment but from a large decline in the labor force—nearly a million people dropped out of the labor force. Moreover, even as total unemployment dropped, long-term unemployment rose. Nearly a third of those unemployed in January (more than 2.5 million people) had been unemployed for 15 weeks or longer. Of those, about 1.1 million had been unemployed for more than half a year.
- **Manufacturing continued to show weakness.** Manufacturing accounted for the entire decline in payroll employment in January—factory employment was 7.2 percent below the level that prevailed a year earlier. Those declines in factory jobs were concentrated among producers of motor vehicles and aircraft. Moreover, the length of the factory workweek fell slightly in January, after a sharp rise in December. Overtime hours, however, grew for the second month in a row.
- **Service-sector employment was essentially unchanged.** Employment in private service-producing establishments rose 0.1 percent in January. That overall increase stemmed from the largest increase in retail jobs since April 2001. However, unusually slack retail hiring during the holiday season along with the Department of Labor's seasonal adjustment procedures (which assume a 'normal' increase in January layoffs) may have led to an overstatement of retail employment last month. Overall employment among private service-producing establishments was 0.4 percent below the level that prevailed in January 2001.

Economy At A Glance	Jan	Dec	Nov	Oct	2001 Qtr 4	2001 Qtr 3	2001 Qtr 2	2001 Qtr 1	2001	2000
Economic Activity										
Real GDP (% growth)					0.2	-1.3	0.3	1.3	1.1	4.1
Industrial Production (% growth)		-1.2	-4.7	-8.1	-7.2	-4.7	-5.9	-6.1	-3.9	4.5
Capacity Utilization (Level, %)		74.4	74.5	74.9	74.6	76.2	77.4	78.9	76.8	81.8
Civilian Unemployment Rate (Level, %)	5.6	5.8	5.6	5.4	5.6	4.8	4.5	4.2	4.8	4.0
Housing Starts (Thousands)		1570	1625	1518	1571	1601	1623	1627	1606	1575
Real Disposable Personal Income (% growth)		5.6	1.4	-25.3	-7.8	12.3	2.4	2.7	3.6	3.5
Retail Sales (% growth)		-1.3	-30.9	109.8	11.3	-1.3	5.2	5.4	3.5	7.6
Personal Saving Rate (Level, %)		1.0	0.5	0.2	0.6	3.8	1.1	1.1	1.6	1.0
Inflation & Productivity										
CPI-U Inflation, All Items (% growth)		-2.4	0.0	-3.5	-0.4	0.7	3.1	4.2	2.8	3.4
Core CPI-U Inflation (% growth)		1.2	4.9	2.4	2.7	2.5	2.6	3.2	2.7	2.4
Compensation per Hour (% growth)					4.1	3.6	4.1	4.5	4.1	4.4
Output per Hour (% growth)*						1.5	2.1	-0.1		3.3
Financial Markets										
T-Bill Rate, 3-month (Level, %)	1.7	1.7	1.9	2.2	1.9	3.2	3.7	4.8	3.4	5.8
T-Note Rate, 10-years (Level, %)	5.0	5.1	4.7	4.6	4.8	5.0	5.3	5.1	5.0	6.0
Federal Funds Rate (Level, %)	1.8	1.8	2.1	2.5	2.1	3.6	4.3	5.6	3.9	6.2
Dow Jones Industrial Avg (Index Level)	9924	9980	9722	9221	9641	9934	10669	10513	10189	10735

Sources: Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; and, Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

* Subject to revision this week.

Major Economic News Due This Week:

- **Manufacturers' Shipments, Inventories and Orders, December 2001** [Release: Tuesday, February 5]
- **Productivity and Costs, Fourth Quarter 2001** [Release: Wednesday, February 6]
- **Chain Store Sales, January** [Release: Thursday, February 7]
- **Wholesale Trade, December 2001** [Release: Friday, February 8]